# Chapter 2: The Euro Pricing Chaos

The Fantasy of the Euro: A Story of Economic Detachment

*From The Empty Chair Archive*

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## Introduction

The Republican Turkish Party (CTP), Northern Cyprus's traditional party of the left, has developed a political obsession with the Euro that has served as a potent smokescreen, masking the real and devastating issues crippling society. While the party focused its rhetoric on currency substitution, a silent crisis was exploding in the education sector: private school fees increased four to fivefold in Euro terms.

The human consequences were immediate and brutal. Parents struggled to pay the skyrocketing fees. Children were abruptly pulled from their schools and friends, forced to switch to new environments. Those who remained in their schools often found themselves in emptier classrooms, their social world fractured. Behind this crisis lay the real, unaddressed problems: a huge influx of illegitimate money and the unchecked greed of private school owners, operating in a country lacking the strong institutional structures to regulate them.

The CTP, wielding its influence in media and relying on a base of fearful and loyal supporters, successfully diverted public attention away from this structural collapse. This chapter tells the story of that diversion. It explains how a party, particularly one of the left, became the champion of a policy that harmed the very people it claims to represent, and how it developed a philosophy not to solve problems, but to justify its own failures.

To understand how a political party could successfully distract from such visible suffering, we must first understand the economic vulnerabilities that made this sleight of hand possible.

# 1 The Broken Foundation: An Economy as a Recipe

To understand why adopting the Euro was such a catastrophic miscalculation for Northern Cyprus, we need to look at the fragile state of its economy. Think of an economy not as a mysterious force, but as a **recipe for a cake**.

A cake's outcome depends on three things:

1. The **quantity** of ingredients (like flour and eggs)
2. The **quality** of those ingredients
3. The **skill and technology** of the baker and the oven

An economy works the same way. Economists use a simple recipe, called the Cobb-Douglas production function, to describe this:

$$Y = A \cdot K^{\alpha} \cdot L^{1-\alpha} \tag{1}$$

Don't let the symbols scare you. They are just labels for the parts of our recipe:

- $Y$ (Output) is the **final cake**—the total value of goods and services the economy produces
- $K$ (Capital) is the **kitchen equipment and raw materials**—the factories, machines, and investment money
- $L$ (Labor) is the **number and effort of the bakers**—the people available to work
- $A$ (Total Factor Productivity) is the **baker's skill and the oven's technology**—it determines how efficiently you turn ingredients into a great cake
- $\alpha$ (alpha) tells us how much each ingredient matters. In Northern Cyprus, every ingredient was already spoiled.

Now, let's see what was wrong with the Northern Cypriot "kitchen" before the Euro experiment.

## 1.1 The Parallel Struggle: Shared Weaknesses with Turkey

Northern Cyprus and Turkey suffered from parallel problems in all three areas of our economic "recipe":

- **The $A$ Problem (Poor Recipe Skills):** Both economies struggled with low productivity—like bakers using outdated techniques. Turkey's chronic inefficiency was mirrored in Northern Cyprus, where institutional barriers and limited innovation kept us from working smarter.

- **The $L$ Problem (Losing Good Bakers):** Both economies experienced significant brain drain. Our best "bakers"—doctors, engineers, and academics—were leaving for better opportunities abroad, draining both economies of their most skilled workers.

- **The $K$ Problem (Misplaced Kitchen Tools):** In both economies, capital investment was poorly allocated. Resources were concentrated and funneled into speculative real estate rather than productive investments that would actually improve our economic "kitchen."

Given the deep economic connection between Northern Cyprus and Turkey, these parallel problems became mutually reinforcing. Turkey's economic weaknesses directly amplified Northern Cyprus's own structural challenges, creating a perfect storm of economic vulnerability.

**Turkey's move to this new regime negatively impacted all the factors in our economic recipe:** it further eroded productivity ($A$) through unpredictable policy, accelerated the brain drain of skilled labor ($L$), and misallocated capital ($K$) towards politically favoured projects. The economy began struggling to produce as much as before. It was at this precise moment of maximum vulnerability—this perilous conjuncture—that the CTP suggested the switch.

Their proposal was not the result of a careful plan or a detailed report analysing the risks. There was no transition framework, no cost-benefit analysis for local businesses. It was as if they woke up one day and declared, "today we will switch to the Euro." This was not merely a bad suggestion; it was a display of sheer incompetence, a policy gamble made with the economic future of every citizen. Yet, shielded by their media and loyal supporters, they presented this recklessness as a bold vision for the future.

# 2 Adding Fuel to the Fire: The Euro Experiment

Against this backdrop of shared structural weakness, the CTP's push for Euro adoption represented a profound misdiagnosis. Their argument rested on the volatility of the Turkish Lira, but they failed to identify—or deliberately ignored—the true cause: the currency's instability was not inherent, but a direct consequence of Turkey's shift to a presidential system and the systematic dismantling of its central bank's independence. The Lira was losing its institutional anchor at the very moment the CTP proposed abandoning it.

This timing reveals either spectacular incompetence or wilful blindness. The lesson unfolding in real-time was clear: currency stability depends on institutional integrity, not on which portrait appears on the banknote. Yet instead of advocating for stronger institutions—the difficult but necessary work of governance—the CTP chose the fantasy of currency substitution.

The party presented Euro adoption as salvation to mechanics, shopkeepers, and small businesses desperate for stability. But they were prescribing aspirin for institutional cancer. By adding unpredictable exchange rate risk to an economy whose primary trade relationship was with Turkey, they didn't solve the volatility problem—they compounded it. Now businesses faced not just the Lira's political risks, but also the Euro's complete disconnection from local economic realities.

When Mehmet Şimşek returned to Turkey's economic management in 2023 and the Lira began responding to credible policy, it proved what should have been obvious: currencies reflect institutional quality.

This wasn't policy—it was political alchemy, an attempt to transform institutional failure into monetary stability through the magic of currency substitution. The mechanics who believed in this miracle would soon learn that changing currencies without changing institutions is like repainting a car with a broken engine: the problem isn't the paint job.

**Yet the most damning indictment of this failure is not that it happened, but that it persists.** The architects of this debacle were never held accountable. Instead, the political culture that produced such recklessness evolved, developing sophisticated philosophical defenses for its own incompetence. It is a system that not only fails but has learned to *celebrate* its failures as virtues. This brings us to the final, tragic act of this story: not just the making of a catastrophe, but its normalisation.

# 3 The Human Cost: Short-Run Chaos and Long-Run Consequences

## 3.1 The Institutionalisation of Uncertainty

The catastrophic result of this economic detachment was visible not in macroeconomic charts, but in the brutal reality of everyday life. The most telling artifact of this failure was the official price list issued by the Kıbrıs Türk Esnaf ve Zanaatkarlar Odası, which perfectly captured the transition from policy failure to institutionalised chaos:

| **Service** | **Low Price (€)** | **High Price (€)** |
|---|---|---|
| Fren balatası değişimi | 20 | 50 |
| Otomatik şanzıman tamiri | 200 | 600 |
| Dizel motor kapak contası | 250 | 800 |

This was not a price list—it was a **formalisation of economic anarchy**. The 150-300% price ranges represent what economists call **variance** (Var$(P)$), but for citizens, it represented something far more sinister: the complete collapse

of price discovery and the normalisation of predatory uncertainty. A family budgeting for car repairs faced not just inflation, but a fundamental breakdown in the very concept of a fixed price.

When questioned about this institutionalised ambiguity, the Chamber's response—"*Bilmiyorum*" (I don't know)—was not merely an admission of ignorance. It was the logical endpoint of a governance philosophy that had abandoned its most basic function: to provide a predictable and transparent economic environment. The state, through its sanctioned institutions, had become a conduit for uncertainty rather than a bulwark against it.

This institutionalised ambiguity was not confined to auto repair. A nearly identical pattern of price chaos emerged in the education and healthcare sectors, driven by a massive, distortionary demand shock. Between 2022 and 2023, an influx of illegitimate money—amounting to, at least, 25% of the nation's entire GDP—entered the economy. This torrent of capital, largely detached from productive activity, inflated demand by a staggering 20%. The result was an economic environment where genuine price signals were drowned out. Schools and hospitals, facing this artificial surge, were operating in the same chaotic framework as the mechanic: the connection between the real cost of a service and its price had been severed. The state, having failed to control the influx of this capital or to regulate its impact, once again left its citizens to navigate a market where the very concept of a fair price had collapsed.

In this light, the Euro did more than just introduce exchange rate risk; it acted as a perfect mask. It provided a sophisticated, European facade that covered the massive, destabilising flows of illegitimate capital beneath the surface. Here lies the ultimate irony: a left party, a formal member of the Socialist International, had—perhaps unknowingly—championed a system that functioned as a brutally efficient mechanism for laundering not just money, but the very perception of the economy itself.

## 3.2 The Philosophy of Deflection - "Beautiful Incompleteness" as a Policy Tool

This historical context makes the recent political developments not just ironic, but deeply revealing of the underlying political pathology. While families and businesses endured the tangible consequences of economic chaos—the mechanic's bill that could vary by 300%, the business plan rendered meaningless by pricing ambiguity—the party's intellectuals now proclaim that **"ambiguity is good."**

This represents more than mere political tone-deafness; it constitutes a fundamental betrayal of the social contract. The philosophy of "muğlaklık" (ambiguity), when elevated from political strategy to moral virtue, represents the ultimate alchemy of failure into virtue. It transforms the very substance of governance from the provision of clarity and predictability to the celebration of their opposites. What was once a failure of policy execution becomes reframed as a

sophisticated embrace of complexity—a philosophical stance that conveniently absolves its proponents of the need for competence or accountability.

## 3.3 Long-run Costs: The Endorsement - Normalising the Failure

It is against this backdrop that Mustafa Akıncı's endorsement of the CTP as the party with "the approach to shape the future" takes on profound significance. Akıncı, widely regarded as a statesman who championed institutional integrity and principled governance, now lends his credibility to the architects of this uncertainty-based governance model.

This endorsement creates a fundamental cognitive dissonance: how does a legacy built on the pursuit of clear principles and institutional accountability reconcile with endorsement of a party that has operationalised ambiguity? The endorsement suggests either a tragic misunderstanding of the CTP's governing philosophy, or worse, a conscious decision to subordinate the virtue of clarity to the pragmatism of political alignment.

The mechanic's price list and the philosophy of "muğlaklık" are not separate phenomena—they are symptom and cause, the practical outcome of a governance model that has abandoned the hard work of creating certainty in favor of the easy virtue of celebrating uncertainty. To endorse the architects of this failure as shapers of the future is not merely a political choice; it is a philosophical surrender that threatens to make permanent the very economic chaos that has impoverished and destabilised our community.

### 3.3.1 Normalising the Brain Drain Economy

The political convergence of a party that institutionalises uncertainty and a respected statesman who endorses them creates a perfect storm for accelerated brain drain. When a political entity not only fails to provide economic stability but actively philosophises ambiguity as a virtue, it sends a clear message to the educated and the ambitious: this is not a system that values or rewards talent and planning.

The mechanic's price list is merely the visible symptom; the underlying disease is a governance model that makes rational life planning impossible. Why would a young engineer, doctor, or entrepreneur build a future in an economy where predictability is abandoned as a governing principle? This creates a self-selecting system where those with means and talent exit, while those who remain become increasingly dependent on the political structures that perpetuate this uncertainty.

When we observe this pattern—economic policies that create volatility, philosophical frameworks that celebrate ambiguity, and political endorsements that

lend credibility to dysfunctional systems—we must ask the fundamental question: **is this incompetence or design?**

The evidence suggests a system that has evolved to serve itself rather than its citizens. This represents a coherent, if unstated, governance strategy where uncertainty becomes a tool of control, and brain drain serves to remove potential sources of opposition. The ultimate tragedy is that those who suffer most—the families facing unpredictable price shocks, the young professionals leaving for stable environments—are the very people whose interests the political class claims to represent. Yet the evidence increasingly suggests a system where everyone is playing for themselves, while the public pays the price in diminished opportunities and a perpetual brain drain that robs our community of its brightest futures.

# Conclusion

**Returning to our economic "recipe," we now see the full picture:** A political class that mismanages capital ($K$), philosophically chases away skilled labor ($L$), and celebrates the inefficiency that cripples productivity ($A$). They are not following a recipe for a prosperous society, but for a failing state. The ultimate outcome of this recipe is not a thriving economy ($Y$), but a society stripped of its potential, where the only certainty left is the uncertainty they so proudly defend.